

ANNUAL REPORT

2007



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1. Introduction from the President/Chief Executive Officer

The events of the year 2007 were fundamentally defined by an event in 2008: January 1st 2008, the date of the full opening of the market. The several year long process that resulted in the opening of the electricity market on January 1st 2008 required no small amount of effort, transformations and modifications.

While the opening of the market began in 2003, the new electrical energy law and its regulations brought further fundamental changes to the electrical energy industry, to which DÉMÁSZ – thanks to the joint efforts of our employees and management team – has successfully responded. The new structure of our corporate group, the developments in our information systems and the great amount of training to aid in the preparation of employees all have promoted the same objective: to keep our customers satisfied.

Furthermore we needed to respond to all of these changes in such a way that our customers would not notice any of this, only that we are continuing the network development and maintenance projects, handling street lighting and voltage complaints, and responding to our customers' demands and complaints by phone, through the internet and directly at our field offices.

While ensuring optimal day to day operation, we shall continue to enlarge the scope of our activities as a reliable electricity distribution and supply company throughout the country. It is not only an obligation, but also in the interest of DÉMÁSZ to have a long-term plan to promote the preservation of our environmental assets. The EDF Group, as one of the partici-



pants in the world's electrical energy production who produces the least harmful materials, has been committed to sustainable development for a long time, and DÉMÁSZ's environmental protection activities have become ever more closely knit with the Group's efforts.

A stylized handwritten signature in blue ink, consisting of a large 'J' and 'P' followed by a horizontal line.

Jacques Pithois
President/
Chief Executive Officer

2. Basic figures of the DÉMÁSZ Group

	2006	2007
Turnover (MHUF)	103 794	149 209
EBITDA (MHUF)	15 867	18 502
EBIT (MHUF)	7 712	10 807
Net income (MHUF)	5 845	8 036
Investments (MHUF)	8 958	10 845
Average number of employees	1744	1572
Distribution territory (km ²)	18 235	18 235
Network length (km)	31 347	31 487
Network losses (%)	9,57	9,21
Customer minutes lost SAIDI (min)	95,7	129,4
Frequency of interruptions SAIFI (pc)	1,64	1,86
Distributed energy volume (GWh)	3 940	4 004
Number of clients	762 830	767 959
DÉMÁSZ Customer Satisfaction (residential and commercial together) (max. 100)	80	79,8
Average customer satisfaction in Hungary (residential and commercial together) (max. 100)	77,8	79,3



3. The DÉMÁSZ Group

3.1 Introduction

Our company, as the legal successor of the existing Southern Plains electrical service provider, was founded in 1951 under the name Southern Hungarian Electrical Service Provision Company (Dél-magyarországi Áramszolgáltató Vállalat). During the course of the changes occurring in Hungary in the 1990s it was transformed into a joint stock company in 1992, and was privatized in 1995. At this time EDF International appeared amongst the owners, and following the gradual purchase of shares by EDF SA at the end of 2006 became – through a public purchase offer – the sole owner of DÉMÁSZ (with the exception of one share owned by the Hungarian state).

DÉMÁSZ is an integrated company whose major activities are: distribution system operation (through its subsidiary company DÉMÁSZ Hálózati Elosztó Kft, whose service area covers almost 20% of the territory of Hungary, which means about 760,000 consumer locations) electricity supply throughout the entire territory of Hungary through the mother company and its affili-

ate EDF Energia Hungária Kft., and finally DÉMÁSZ ensures – through its subsidiary companies DÉMÁSZ Primavill Kft. and DÉMÁSZ Partner Kft. – the development and maintenance of the distribution network. DÉMÁSZ's joint meter reading subsidiary company with ÉGÁZ-DÉGÁZ is the DL Délalföldi Leolvasó Szolgáltató Kft.

During the long course of its operations DÉMÁSZ has always paid great attention to the continuous development and maintenance of the network it owns, as well as the constant training of the experts performing the work. In conjunction with its provision of dependable, quality electrical energy service, it is doing more and more to satisfy its customers as a major player in the region. On the basis of the results of the Hungarian Energy Office's annual customer satisfaction survey amongst the six electrical energy providers, DÉMÁSZ has won the Energy Consumers Award seven times in the last twelve years.

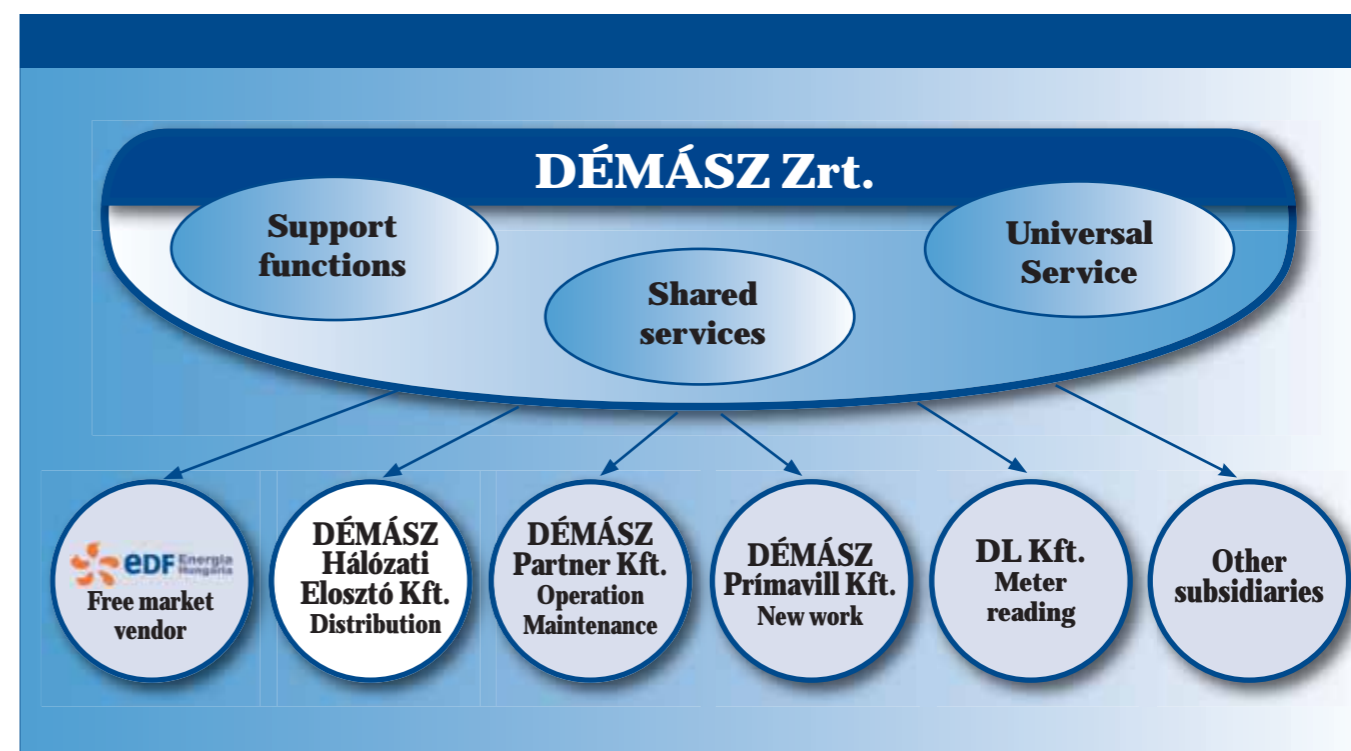


Table number 1: the structure of the DÉMÁSZ Group (on 1 January 2008)

3.2 Our values

- respect for individuals
- environmental responsibility
- striving for excellence
- commitment to the community
- performance and teamwork
- integrity

3.3 Our mission

- Constantly to improve the high quality of service to our customers.
- To maintain and develop the network in the interest of greater dependability and customer satisfaction.
- To support continual growth that will ensure the corporate group's effective operation and profitability according to the concept of sustainable development.
- To increase our market share within the competitive market in Hungary and to remain a significant service provider of the electrical energy industry in Central Europe as a member of the EDF Group.

3.4 DÉMÁSZ administration

THE BOARD OF DIRECTORS

- **Jacques PITHOIS**, chairman of the board
- **Christophe ESPERT**, board member
- **Rudolf GROÓ**, board member
- **József HIEZL**, board member
- **Marianne JOUVE**, board member
- **Nicolas KATCHAROV**, board member
- **Gábor LEHÓCZKI**, board member
- **Dr. Gábor PAPANEK**, board member

THE SUPERVISORY COMMITTEE

- **Brice ALLEMAN**, the chairman of the Supervisory Committee
- **Agnes BUTTERLIN**, member of the Supervisory Committee (from 6 April 2007)
- **Jenő DOMBI**, member of the Supervisory Committee
- **Dr. Ágnes KURUNCZI**, member of the Supervisory Committee
- **Patrick LUCCIONI**, member of the Supervisory Committee
- **Dr. Ferenc TRÁSER**, member of the Supervisory Committee

MANAGEMENT

- **Jacques PITHOIS**, chairman of the board / Chief Executive Officer
- **József HIEZL**, board member / Chief Operation Officer
- **Gábor LEHÓCZKI**, board member / chief finances officer
- **Christophe ESPERT**, board member / managing director of EDF Energia Hungária
- **Jean-Paul SAINTE-MARIE**, managing director of DÉMÁSZ Hálózati Elosztó
- **József TÓTH**, managing director of DÉMÁSZ Partner
- **István KORPONAI**, managing director of DÉMÁSZ Primavill
- **András PIPICZ**, managing director of DL

4. The EDF Group

Electricite de France (EDF), founded in 1946, is one of Europe's largest companies in the electrical energy industry. The EDF Group conducts activities that mutually complement each other in the areas of electrical energy and natural gas production, distribution, service and trade. It is an active participant in the regulated and free markets in France and abroad. From its foundation the French state had been its sole owner, and then in November of 2005 the group successfully joined the circle of companies listed on the stock exchange. Over 5 million private investors have taken advantage of the opportunity to buy shares.

The EDF Group is the owner of the largest online electrical energy production capacity in Europe. It services more than 37.8 million consumers throughout the world, and in 2005 its after-tax balance surpassed 3 billion Euros. Its highest ambition is to become an international corporate group that provides its customers with a full range of energy services with various kinds of energy and various kinds of services combined in its range of offers.

EDF, befitting of the company in the European electrical energy industry that produces the least amount of harmful emissions, is a corporate group that is a solid representative of the corporate culture committed to the values of public service and sustainable development. Throughout the world it combines competition with respect for partners and economic efficiency with social responsibility.

In Hungary the EDF Group is the owner of DÉMÁSZ and of Budapesti Erőmű (the Budapest Power Plant 96.08%). It is an indirect shareholder of Dalkia Magyarország (Dalkia Hungary) and its subsidiary, the Dalkia energy consulting firm. Through its subsidiary company EnBW it has an indirect share of the ELMŰ and ÉMÁSZ companies.

Synergy within the EDF Group contains numerous opportunities for reducing costs, as well as facilitating the transference and acceptance of methods that have been utilized successfully elsewhere. In the realm of work safety and protection we constantly work together with SSE (Stredoslovenska Energetika) from Slovakia, which is also a member of the EDF Group. In the context of a cooperation agreement DÉMÁSZ information science service also provides security for the Budapesti Erőmű in case of computer emergencies through service restoration in a guaranteed period of time. We are making efforts to continue and further strengthen this successful process.

The employee stock benefit program started last year by EDF entitled ACT 2007 has been welcomed with great interest and anticipation by the employees, similar to the earlier programs, proving that they all trust in the continuing success of EDF, and that they want to be active participants in this as both shareholders and employees.

Key figures	2006	2007
Turnover (M€)	58 932	59 637
Net result (M€)	5 605	5 618
EBITDA (M€)	14 393	15 210
Net financial debt (M€)	14 932	16 269
Investments (M€)	5 900	7 500

Illustration 2. EDF basic figures



5. About the year 2007

2007 was the final year before the full opening of the market. At this time we assessed how our new structure required by the legal regulations functions in practice. While storms right at the beginning of the year set challenges for the new owners of the network, DÉMÁSZ Hálózati Elosztó and every one of the DÉMÁSZ employees working together with it passed the test in preventing service interruptions, just as they did during the course of reliable everyday operations, the distribution and provision of electrical energy services.

We successfully held our own in competitive market trade within quite difficult circumstances. Due to various market factors in the second half of the year the free market prices were greater than the public service rates, so numerous customers returned to the public service. In the historical DÉMÁSZ service areas the free market proportion fell back nearly in half to 12.9%. However, the new law and regulatory statutes had already forecast a large scale exodus to the free market, and to deal with this the customer service system, as well as appropriate billing and information support needed to be secured in time.

Despite the national trend, EDF Energia Hungária (called D-Energia until 1 February 2008), DÉMÁSZ's free market vendor, successfully satisfied consumer demands.

5.1 Development of the network

The supply of electricity is fundamentally determined by the technical condition of the network and the network equipment. Continuous technical development and new technology both serve the purpose to ensure that the electrical energy reaches the consumer uninterrupted, so that our customers spend as little time as possible without electricity.

Arising from the constant demand and nature of electrical energy service is that not only unforeseen events (e.g. storms) can cause power outages, but also the majority of maintenance and improvements may not be performed when the system is live. In the light of all this it is understandable why electricity service cannot always be constant for everyone – but naturally we strive to ensure that our customers feel as unhindered as possible in their daily activities, even if short-term inconveniences serve to make the network improved and better in the long term.

The owner of the network, DÉMÁSZ Hálózati Elosztó (DHE) invested more than 10 billion HUF in network development in 2007.

In the implementation of network related work DHE, which prepares the designs, receives support from two other network subsidiaries of DÉMÁSZ, DÉMÁSZ Partner, which performs operational and maintenance work and DÉMÁSZ Prímvill, which is responsible for development and network construction.

In 2007 we constructed 255 new electric substations, as well as 147 km of medium and 243 km of low tension network. We performed reconstruction work on 16 substations and connected 7,400 new customers.

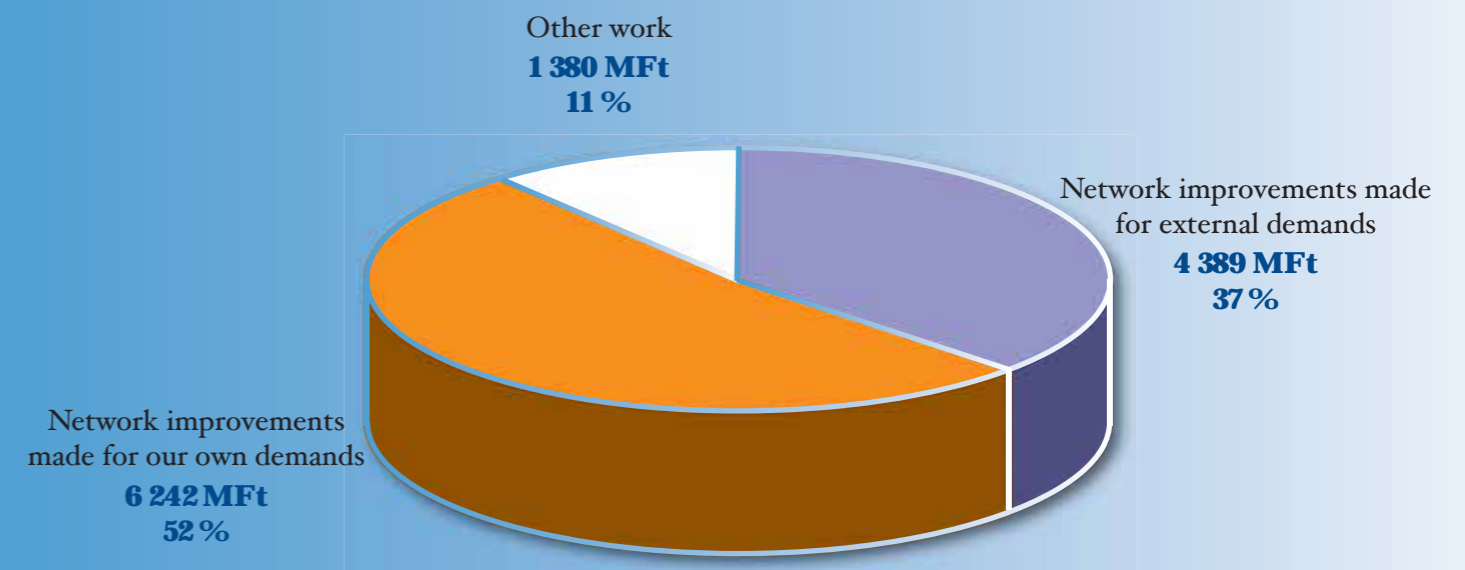
DHE installed nearly 800 million HUF worth of remote controlled post switches, so that by identifying the problem more quickly we could reduce the length of service interruptions.

Since precise metering is of great importance to our customers, DHE paid particular attention to the replacement of out-dated meters. In 2007 DHE replaced more than 56,000 meters. In the case of customers whose meters are read remotely, DHE performed replacement or installation in 3,500 locations, thereby providing assurance of nearly 100% of the remote reading.

In the past year DHE has replaced around 46,000 street lamps with more modern ones.

Similar to previous years, in 2007 DHE also provided for the continuous operation, repair and maintenance of every street lighting installation within the historical DÉMÁSZ territory in the context of long-term contracts existing with municipal governments. In addition to the business advantages of these activities, they also contribute to a large degree to the cultivation and development of relationships with municipal governments.

Illustration 3: Network improvements



Network improvements made for our own demands: Work performed in the interest of improving the quality of the network;
Network improvements made for external demands: Work on the network performed for satisfying customer demands;
Other work: GIS recording of network information.

5.2 Operations

Nearly 100 employees worked on clearing up of damage caused by the storms in January, May, June and August, replacing more than 200 transformer stations (in addition to the call center employees, taking 7-10000 calls per day). These extreme storms caused about 40% of the service interruption time.

Our indicators reflected the repeated extraordinarily bad weather but remain inside the Hungarian requested standards.

As a result of the successful handling of the January storms a project of about 160 million HUF was established, and starting in January the functioning of a centrally controlled dispatch service was tested – it proved that thanks to the several years of development the clearing up of service disturbances along the 31,000 km network may be directed with just as good results centrally as when there were local dispatch centers. Naturally the clearing up of the service disturbances themselves occurs from one of the eight production engineering offices closest to the given consumers of DÉMÁSZ Partner, which has been commissioned by DÉMÁSZ Hálózati Elosztó to perform maintenance work.

As a conscientious manager we also strive to keep service interruptions due to vandalism to as few as possible by reducing network damage. We trust that this will also help in reducing the number of unplanned power outages, since oftentimes our customers are left without electricity due to vandalism.

For the uniform, quick reception and handling of customer demands we have developed an organizational unit working on the connection of new consumers.

While the majority of maintenance work cannot be done on live lines for understandable reasons, we are still developing live line work techniques, which require extraordinary attention and special implements, and which make it possible for us to resolve a network problem while the customers don't even notice.

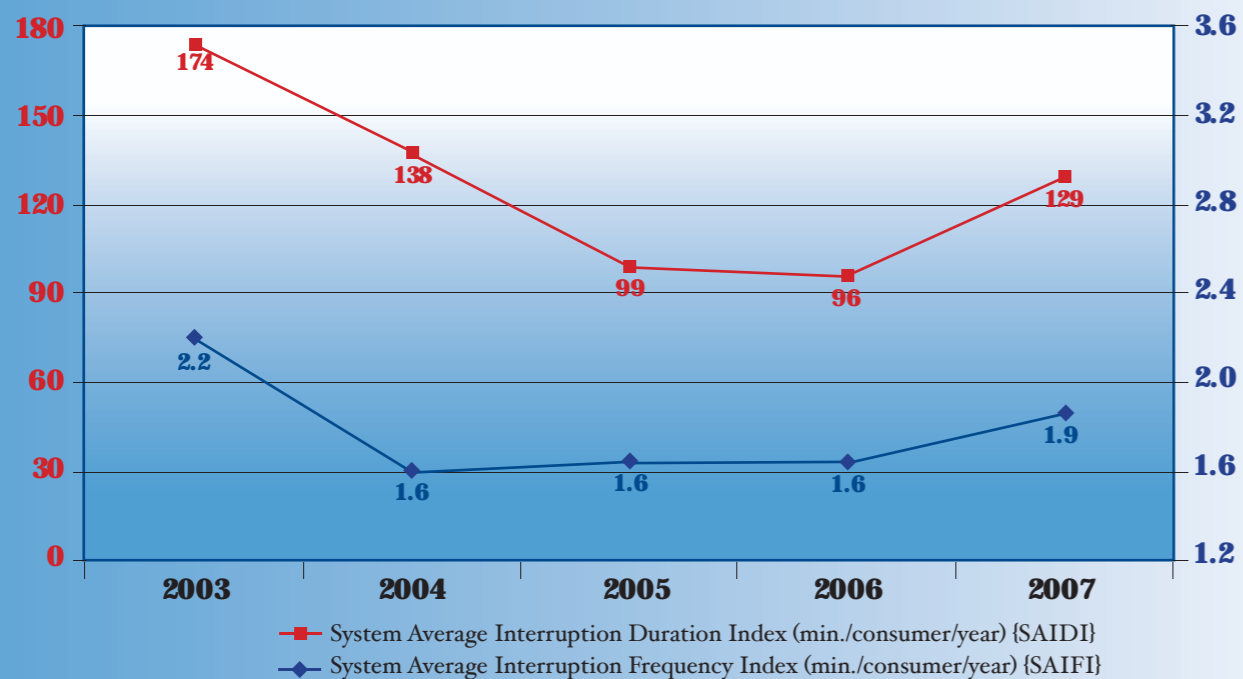
The duration of power outages are also shortened by our second highlighted project, the installation of mobile aggregators: with an increase in the number of available generators and their well thought out placement we can substitute the damaged aggregators more quickly, reducing the time to restore uninterrupted electricity service.

We are continuing to work on the development of the district technician system, which will make it possible for our electricians to arrive at the scene more quickly. Thanks to the electronic distribution of work and the organization of tasks that better take into account the local conditions.

The goal of all of our efforts is that our customers remain without electricity for as little time as possible. The success of our efforts is shown by the fact that the number of complaints to the Hungarian Energy Office (MEH) was fewer than in the previous year. We were able to comply with the MEH prescribed time requirement for complaints and claims within the 5% tolerance range, at 2.8%.

Our joint subsidiary with ÉGÁZ-DÉGÁZ, DL Kft. already performs meter reading services not only in the Southern Plains and Budapest, but also in the Northern Trans-Danubian region, providing a good example of successful inter-organizational cooperation. The meter reading of the kft. efficiency is 99.51%.

Illustration 4: SAIDI/SAIFI



SERVICE TERRITORY
OF DÉMÁSZ HÁLÓZATI ELOSZTÓ

Production Engineering Offices

5.3 Commercial development

A good vendor has three very important duties: it must buy at a good price and in the proper amount, it must sell at a good price and it must cultivate a good relationship with its customers. Our free-market commercial company, EDF Energia Hungária (under the name D-Energia until 1 February 2008) fulfilled all three functions even with the challenge of changing laws that varied quickly and fundamentally.

EDF Energia Hungária considered the year 2007 a high priority period for market development, which is clearly shown by the increase in the number of customers and thereby the number of consumer locations. This naturally was also accompanied by an increase in sales to authorized consumers. In addition to the newly acquired customers, the company placed great emphasis on making the portfolio more loyal, in the context of which despite a few exceptions we were successful in retaining the trust of our earlier authorized consumers. It also successfully participated in public sales organized by Magyar Villamos Művek (MVM) and other producers. Despite the fact that in 2007 the regulated rates of public service became less expensive than the competitive market prices EDF Energia Hungária was able to retain its strong buyer portfolio throughout Hungary.

Its objective is to enlarge its sales in every market segment. Quality services (energy sales to commercial consumers in the Hungarian electricity market and other energy vendors, or energy import and export in close collaboration with EDF Trading) promote the satisfaction of its customers and its efficiency. For each one of these it ensures balancing unit management and when necessary on the basis of a customer demand it takes over and conducts all tasks related to drawing up competitive market contracts.

Its principle goal is that the cooperation – thanks to the individually tailored design and quality services – should not be only for the short term, but instead a long term partnership should develop between the vendor and the customers based on trust and ensuring mutual benefits. The keys to our successes were technical experience, youthful dynamism, determination and teamwork that embraces enthusiasm.



5.4 Customer services

The fundamental changes that defined the year 2007 had to be followed on a day to day basis by our employees. We provided regular training so that the operations complying with the provisions of the new electricity law would not cause them problems. Through the continuous development of informational tools we fostered an environment where our customers would feel as few of the shocks as possible arising from the transformation, and that the conduct of affairs would be as fast and as good as possible.

For the sake of this our customers can utilize the D-line (telephone customer service), which is still available 24 hours a day, and we have introduced debit card payments at our customer service offices. We were able to fulfill the Hungarian Energy Office's 80/30 service standard (answering 80% of the incoming calls within 30 seconds) prescribed in 2007 at 89%, which satisfies the specifications.

Our client telephone center answered almost 2 million calls (one million of these were automatic meter level reporting), and our new home page begun in April has 15,000 registered users, and we can report that one out of every seven of our customers have sought us out for bill applications, meter level reporting or information. While the number of times we were contacted increased, the number of complaints to the Customer Service Department decreased.

According to the Consumer Satisfaction Survey run by the Hungarian Energy Office the opinion of DÉMÁSZ has been continuously improving for years. Our strength is our customer service, since, taking into account the national average, DÉMÁSZ attained the highest level of satisfaction in the realm of residential customers. Our most outstanding performance is in the handling of complaints. It is worth mentioning our results achieved in communications, which is primarily due to the quality of our client relations over the internet.



6. Social responsibility

In 2007 we continued to pay heightened attention to ensure that the growth of the company is an integral part of the development of our immediate and larger environment. The examples of behavior that we expect and demand, the Code of Ethics for all of our activities and actions that can make the lives of our customers and employees easier or serve to protect the environment, are set down in the Corporate Social Responsibility Agreement.

We have also announced our own competition modeled on the EDF Group's Sustainable Development Trophy, so that we may support, develop and incorporate into our daily operation as many initiatives as possible. Amongst the 624 projects in the EDF competition the DÉMÁSZ proposal, in collaboration with the Slovak SSE, won a special award. Its topic was making it possible to utilize electricians from the neighboring country for troubleshooting during extreme weather conditions, (thereby reducing the time that consumers are without electricity), and sets a good example in the field of cooperation within the EDF Group.

In the interest of our customers who have overdue payments we also support two foundations: the Védőernyő Foundation in Szeged and the national HÉRA Foundation, which on the basis of individual judgments provide assistance – if they are sought out in time – to our customers in difficult financial or social situations. We accept applications for municipal government assistance out of turn, so that there will be no disconnections due to administrative reasons. We maintain a special, individual relationship with mayors, so that we are able to resolve problems indicated by them as quickly as possible, or so that through their assistance we are able to pass as much useful information as possible along to the customers.

Bird conservation continues to hold a prominent place in our environmental protection goals. Working together with the national parks we have developed techniques that reduce the number of birds killed by electrocution. Thanks to the thousands of insulated covers placed on bird nesting sites, and our most recent development, fiberglass reinforced insulating arms, bird deaths along the lines have been reduced to a fraction.

We constantly track and reduce the environmentally damaging materials utilized during our activities: the oil needed for the operation of the transformers, the emissions from our vehicles, PBC containing capacitors and tar-lined, saline wooden posts. We help our employees and customers to become conscious consumers through ensuring and popularizing selective waste



collection, publications on energy efficiency and informative school presentations.

In cooperation with the University of Szeged we have initiated a joint research project primarily for bio-gas produced by bacteriological gas fermentation, and the production of electrical energy and heat from this, thereby promoting the use and spread of renewable energy resources. In the field of research and development we continue to work together with the majority of domestic universities and colleges, and support the domestic training of experts.

As a patron of art we participate in the support of the cultural life of the region and the country. The D-Gallery operating at DÉMÁSZ headquarters provides a place to present domestic and foreign artists, and as a sponsor with Mezzo Television of the Opera Festival and Competition series of events beginning in 2008 we hope we will be able to help the budding careers of young performers, while at the same time increasing the renown of Szeged, the region and of the whole of Hungary.

We also continue to be prominent sponsors of water sports in Szeged and Baja. As name sponsors of the DÉMÁSZ Szeged and DÉMÁSZ Baja Water Sports Clubs we have high hopes for the participation of our Olympic athletes in Beijing, so that through our assistance we can show that always trying harder and continuous improvement of performance earns them their deserved rewards. In accordance with the guiding principles of

the EDF Group a new item on our menu is the support of sports for the physically challenged, complementing our commitment to increasing our number of physically challenged employees. Our efforts in this area were recognized by the basic certificate we earned from the Agency for Employment and Social Issues in December of 2007, which classifies DÉMÁSZ as an accredited employer.

As our most important resource, we pay heightened attention to our employees' health and safety, as well as the strengthening of the solidarity arising from their fellowship. In 2007 we again completed an internal satisfaction survey amongst the employees, the results of which show that 50% of the employees here are satisfied or definitely satisfied with their workplace, besting the Hungarian average. We strive to keep our employees active members of the DÉMÁSZ team through various benefits, corporate events, the creation of a balance between work and private life and the provision of congenial work conditions. We aid our employees in staying healthy through regular screening and rehabilitation programs. Thanks to our efforts the number of lost work days per person decreased to 7.6, and thanks to our examination and instruction action plan instituted for work safety the number of accidents decreased significantly. This goes to show that it is worthwhile to continue to consider safety issues a highlighted area.



6.1 Trends in work accidents and sickness

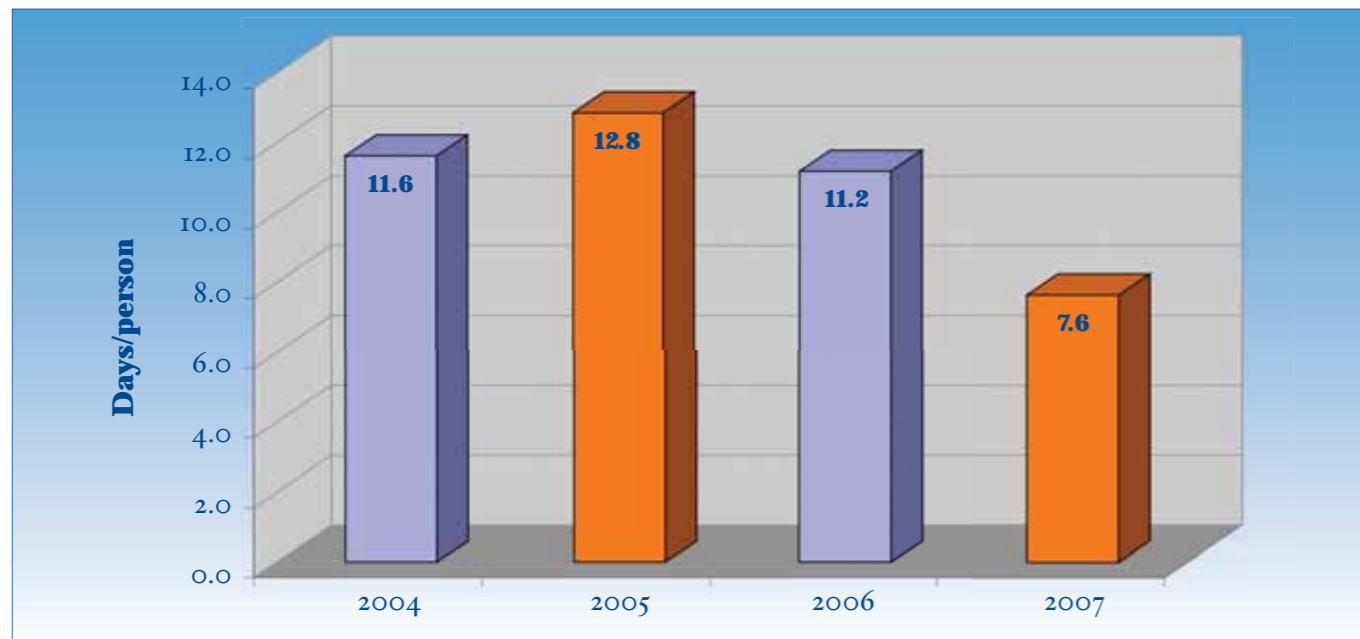


Table 5: number of work days lost to sick leave per employee

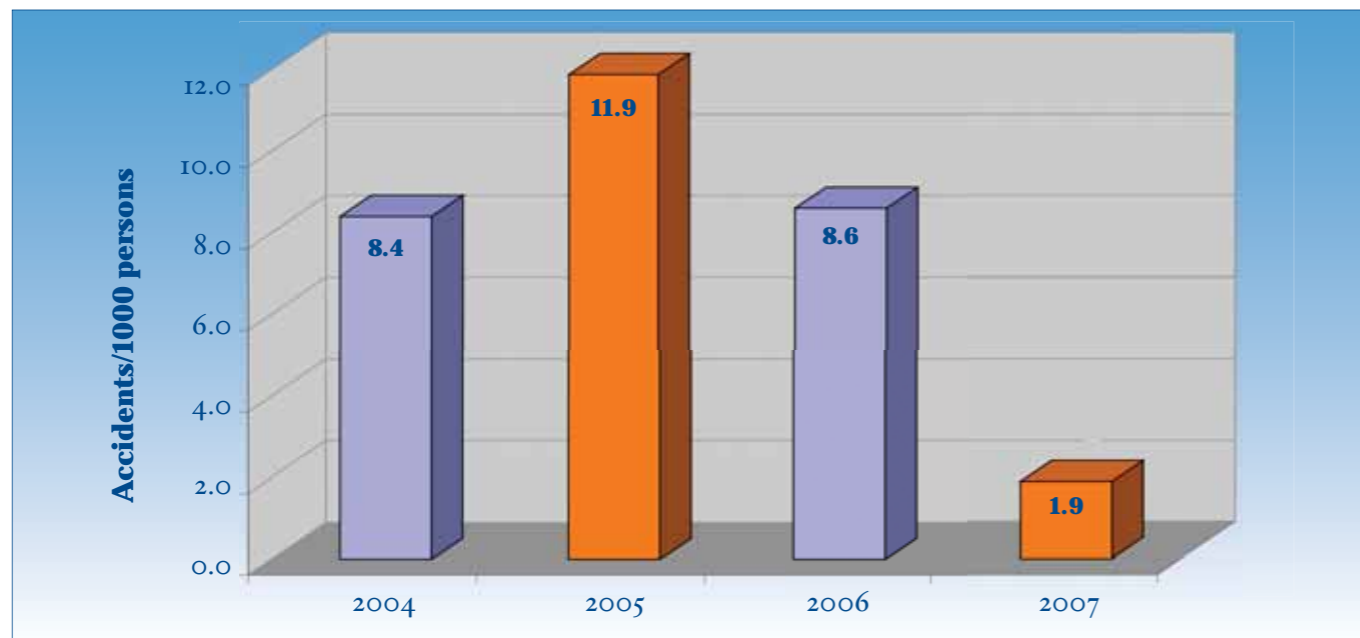


Table 6: number of accidents per 1,000 employees

Period	2004	2005	2006	2007
Number of accidents / 1,000 persons	8.4	11.9	8.6	1.9
Number of work days lost to sickness / 1 person	11.6	12.8	11.2	7.6

Table 7: the trends in work accidents and sickness



7.7. Where can you reach us?

Contact information:

Délmagyarországi Áramszolgáltató
Zártkörűen Működő Részvénytársaság

Szeged, 6720 Klauzál tér 9.

D-Line (telephone customer service)

“blue” number, local rates apply: 06 40 82 22 82

from abroad: 06 62 565 600

Meter reading reporting

“green” number, free from land line telephones:: 06 80 82 81 80

mobile “blue” number, local rates apply:: 06 40 82 81 80

Problem reporting

“blue” number, local rates apply: 06 40 82 20 00

Home page: www.demasz.hu

E-mail: ugyfelszolgalat@demasz.hu

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